

# Vision Resources, Inc.

1100 Louisiana, Suite 300  
Houston, Texas 77002-5299  
(713) 659-5515 Fax: (713) 756-1189

January 28, 2000

Mr. David S. Guzy  
Minerals Management Service  
P. O. Box 25165, M.S. 3021  
Denver, Colorado 80225-0165

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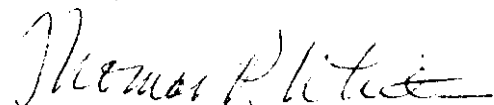
RE: Minerals Management Service proposed Royalty Crude Oil  
Valuation Rulemaking.

Gentlemen:

Attached to this letter are the typed comments that Thomas P. White, President of Vision Resources, Inc. delivered at the January 20, 2000 MMS workshop held in Washington D.C. We wish to formally submit these comments for the record concerning the proposed rulemaking.

Thank you very much.

Sincerely,



Thomas P. White  
President

**COMMENTS FOR MMS WORKSHOP CONDUCTED  
JANUARY 20, 2000 IN WASHINGTON, D.C.**

- I. Perspective of New Oil Valuation Rule from point of view of Independent producer with a marketing affiliate.
- A. I'm Tom White, President of Vision Resources, Inc., the oil marketing affiliate of Walter Oil & Gas, an independent producer operating almost exclusively in the Gulf of Mexico. Have personally assisted independent producers in marketing their oil and gas production for over 22 years.
    - Thought it would be helpful to summarize this new rule from the perspective of an independent with an oil marketing affiliate, who has been actively involved in this debate for over 2 ½ years.
  - B. New rule will widen further the gap of distrust that exists between the MMS and independent producers. Any rhetoric that the relationship is good or getting better is totally incorrect. In my personal opinion, I do not foresee the relationship improving at all in the near term.
  - C. A lot has been spoken about simplification and easing administrative burdens under this proposed rule, which we do not believe to be the case unless producers pursue a marketing program of all outright, arms-length sales at or near the lease – any other method, tracing or indexing will greatly magnify the administrative and accounting costs.
    - 1. Litigation will most definitely increase unless oil is sold outright arms-length at the lease with the exception and concern about second guessing.
      - a. In this regard, the attempt to codify vastly enhanced “Implied obligations” that are the subject of ongoing disagreement and possible litigation which attempts to extend the rights of a lessor beyond the boundaries of the leased premises represents a form of business intrusion and if not limited now, will most certainly be expanded in the future to encompass other activities of the lessee. This is just simply wrong.
  - D. Heart of the dispute is this ever expanding implied duty to market.
    - 1. Independent producers have historically viewed their obligation to market oil production at or near the lease premises as a cost free obligation and have pursued an approach of attempting to obtain the highest prices possible for themselves and their lessors. We will continue to view this obligation at the lease as paramount. However, activities downstream of the lease premises with their inherent added risks and costs and uncertainties is outside of the lessor/lessee relationship and this attempt to expand and codify this notion as “mutual benefit” is inappropriate and wrong – where will this enhanced “mutual benefit” end – at the gas pump? I know many of you may not believe it, but in the past we actually had Lessors very interested in leasing to us and hoping for our exploratory and producing success, contrasting that with the situation you are pursuing, is very disheartening.

2. The new rule and this attempt to expand the duty to market combined with the continuing uncertainty of second guessing will most assuredly result in a substantial reduction in downstream market activities by independents – whether you intended it or not – so it can safely be said that this rule actually represents a dictum as to how the independent operators are to conduct their marketing activities, you are in essence making our marketing decisions. The MMS has indicated it will be looking to Spot Market prices at various trading centers as the indicator of “benchmark” values against which to determine whether or not to examine a particular producer’s marketing activities further. Why in heaven’s name would any independent producer sell oil on any basis other than spot market arrangements knowing your predetermined intentions, which further enforces the MMS’s intrusions into operating decisions. Of course, many of us believe that these intrusions will ultimately raise questions about second guessing of higher downstream values. If you want to make these decisions take your oil in kind and sell it to whomever and however you wish.

## II. State of Affairs for Independent Producers.

- A. Most independents view the proposed rule as representing a significant increase in the cost of doing business with the MMS, which comes at a time when in 1999 more independents closed their doors and went out of business than ever before. Gratefully, current oil prices are helping restore some stability but anyone who’s been associated with oil & gas knows – lower oil prices will most certainly return – when and how severe is the question. To survive we must control our costs, specifically the cost of doing business with the MMS.
- B. As you may know, many of the larger integrated producers are moving to deeper waters in the Gulf of Mexico and some have indicated they will be reducing their shallower water activities. Who then is going to own and operate these older properties and complete their producing life? Independents? Maybe if there are any of us left with the capital resources to fulfill the obligations. The capital markets have not been kind to independents. Since the mid 80’s substantially fewer and fewer dollars have been made available to independents – why? Very simple, the rate of return earned through our exploratory and production efforts has been and continues to be miserably low when compared with other investment alternatives of similar risk. This new rule with its added cost burdens will continue to reduce our rates of return and limit accessibility to capital

## III. Where do Independents go from here?

- A. We will adjust to the new rule and greatly simplify our marketing efforts, which is the most cost effective approach. Will it result in the highest prices achievable? Probably not. With limited capital resources, independents must pursue those projects that yield the highest risk adjusted returns – fortunately there are areas within the US and around the world where our exploration activities are highly sought after and welcomed. Surprisingly, in some area

lessors are actively hoping we will successfully explore and produce on their property.

- B. I must candidly say, I do not believe such is the case with the MMS and federal lands. The "not welcome" sign has been lit as typified with this new rule. It would be difficult to recommend an aggressive oil exploration program on federal lands under these circumstances.
- C. So in concluding, while you and the other parties who have so actively voiced opposition to our proposals these past 2 ½ years rejoice in knowing that your rule will soon go into effect, the larger and far more significant goal of sustained domestic oil exploration and production may be slipping away at a more rapid pace. Thank you for the lessons learned these past 2 ½ years in dealing with a political entity and the attendant frustrations. Thank you.